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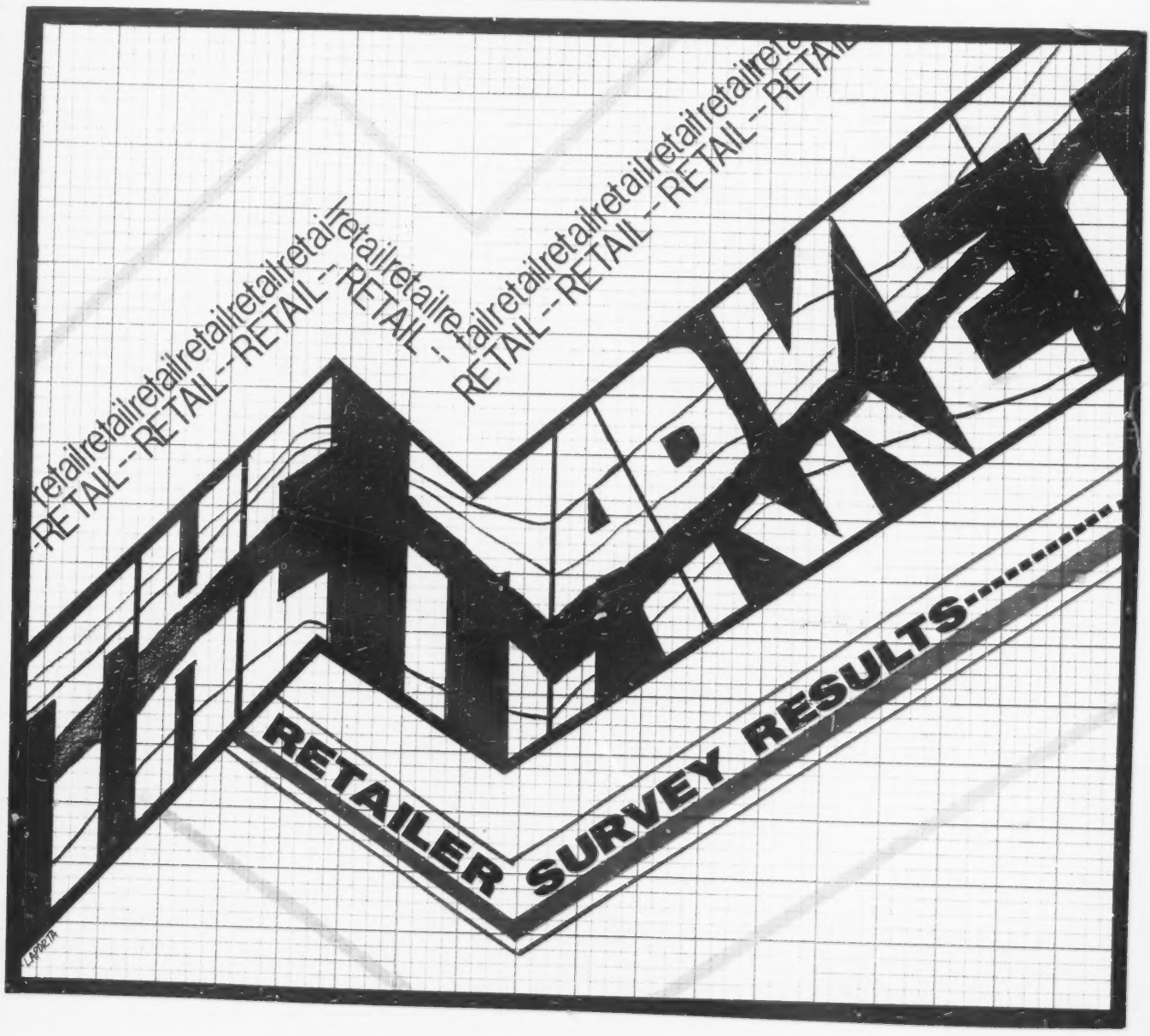

Overview Of Caulks And Sealants Market

Decorative Products WORLD

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Retailers Are Optimistic, Expect Trend To Continue

Last year's headline for DPW's annual retailer survey read "Nowhere To Go But Up . . . Retailers Feel They've Touched Bottom." As you can see from this year's headline, things have changed for the better. The following article contains—in addition to the tables—an analysis of three of the six retail outlets surveyed that we believed indicated some of the most interesting changes from the previous year. The remaining three retail outlets are briefly discussed in the copy and shown in the tables.—editor

table 1

	lumber	other	hardware	home center
gross sales, 1983	$139,117	812,178	86,919	449,764
real change gross sales 1982-83	5.65%	7.12	5.67	10.21
anticipated change in gross sales—1984	5.65%	10.7	9.1	12.12
anticipated change in cost of goods 1984	4.7%	5.6	4.1	4.6
average sq. ft.	1,260	1,875	720	1,491
# of employees	5	7.7	7.1	9.0
decorator—% have one	2.78%	36.4	5.56	37.5

So-so. That is how hardware retailers described their decorative products sales in 1983. Of the 350 respondents to *DPW's* annual survey, a little over 55 percent said their sales in 1983 were "average." However, a more positive sign that things continue to look up for this segment of the decorative products selling market is that 34.75 percent had an "above average" year.

Although the average number of paint lines carried by hardware dealers in 1983 was between one and two major lines—about average as compared to the other types of outlets contacted during the survey—a number of factors stood out as being unique. Of the six major categories of outlets, the hardware stores had the lowest average dollar inventory of paint in 1983. Although dollar inventory was a comparatively low $8,636.34, the gross margin attained by hardware retailers selling paint was the highest of all categories in 1983—35.09 percent. From the way hardware retailers reacted to their paint sales of 1983 in this survey, it would appear that their satisfaction with paint sales is being met with an equally optimistic view of 1984 sales. Hardware retailers on average are increasing their paint inventories in 1984 by 5.65 percent, the highest increase of all types of outlets surveyed.

The hardware outlets continue to have a great impact on overall paint and sundry sales. They were able to attain the highest margins on paint sundries (46.02 percent), chemical specialties (37.42 percent) and arts and crafts (8.14 percent). However, of the types of outlets surveyed, hardware settled for the lowest margins of these retailers in the areas of draperies and floor coverings (2.66), two areas that hardware retailers have traditionally shown a lack of interest in aggressively approaching.

Hardware retailers, most of whom were small family-owned operations, were understandably conservative in their plans for 1984 business moves. Of those responding, 69.60 percent said they would do nothing in the way of opening a new store, expanding an existing outlet, remodeling or moving to a new location. A mere 1.45 percent planned to open a new hardware store in 1984.

Gross sales of decorative products at hardware outlets accounted for an average of $86,919 in 1983. This was a real change increase in gross sales of 5.6 percent over 1982. Due to the nature of these relatively small operations, a mere 720 square feet were devoted to decorative products sales.

With the expected increases in inventory, of paint particularly, hardware retailers expected a gross sales increase in 1984 of 9.1 percent. They anticipate the costs of goods sold at their outlets to be no more than 4 percent. On the average, hardware respondents told *DPW* that they employ 7.5 individuals at their outlets. A mere 5.5 percent of hardware retailers said that one of those individuals is a decorator.

Paint and coatings sales to the homeowner continues to be the major source of decorative products sales at the hardware store. In 1983, paint and coatings departments accounted for 53.86 percent of sales in the decorative product field, while a large 22.19 percent was in sundries. Chemical specialties was next in line (15.56 percent), followed by wallcoverings/window treatments (4.01), arts and crafts (1.21) and other decorative product items (1.43). Floor coverings sales accounted for a mere .66 percent of decorative products sales at hardware outlets.

	independent	paint mfg. owned
	465,761.68	594,269.
	8.51	13.58
	10.9	8.27
	6.2	8.2
	1,812	2,379
	3.6	3.9
	37.8	23.3

table 10

	paint					
# of paint	lumber	other	hardware	home center	independent	paint mfg. owned
lines	1.39	.88	1.48	1.0	1.63	2,126.
type						
national	1.08	.80	.84	.95	.96	1.07
regional	.26	.22	.36	.08	.76	.44
private label	.14	.32	.33	.08	.16	.03
average $						
inventory	$96176	26,5116	8,636.3	9,466.6	30,087	37,04108
average						
gross margin	3442%	20.62	35.09	29.6	32.77	34.21
percent						
change in in-						
ventory—1984	1.94	3.67	5.65	5.39	4.13	4.58

table 8

	average dollar inventory					
	lumber	other	hardware	home center	independent	paint mfg. owned
paint sundries	$9,139.	8,237.	8,726.	5,973.	10,776.	19,315.
chemical specialties	2,768.	1,390.	2,792.	2,153.	1,693.	3,800.
draperies	0.	625.	2,792.	127.	114.	0.
window treats	31.	221.	500.	714.	1,943.	490.
floor cov.	917.	12,672.	184.	10,620.	1,643.	1,250.
arts & crafts	88.	104.	313.	81.	1,207.	1,110.

table 11

	gross margin					
	lumber	other	hardware	home center	independent	paint mfg. owned
paint sundries	39.44	17.53	46.02	43.17	39.44	34.27
chemical specialties	28.93	13.37	37.14	26.8	22.42	23.22
draperies	2.00	12.37	.80	19.68	10.50	7.03
window treats	5.48	19.44	14.13	25.31	15.88	17.58
floor covr.	7.40	18.49	2.66	28.51	8.08	9.49
arts & crafts	4.00	4.30	8.14	7.50	7.5	6.16

The do-it-yourself market accounted for 73.94 percent of the hardware stores' customers for decorative products, with institutional, industrial and commercial accounts constituting 11.39 percent of the stores' customers. Painting and decorating contractors made up 7.50 percent of 1983's decorative products customers at hardware retail outlets.

Although wallcoverings are not often carried by the hardware retailer, those who choose to carry some will do it by investing heavily in sample books. Of those who carried wallcoverings, 81.90 percent went the route of the sample book, 13.65 percent stocked, and 9.10 percent utilized self-display merchandisers. The average number of books carried by hardware retailers was 121.46, and an average gross margin of 38.56 percent was achieved by these dealers.

The trend of decorative products sales at hardware retail outlets appears to be consistent with the decorative products market as a whole. Most are optimistic for 1984 sales with the "average-above average" trend expected to continue.

Lumber/building supply stores also appear to be more confident about the immediate future and relatively pleased with their past year's performance. Almost identical to hardware retailers, lumber and building supply stores experienced a gross sales increase in decorative products on average of 5.65 percent. Average total gross sales of those responding to the *DPW* survey was $139,117 for 1983. For outlets that do not specialize specifically in decorative products sales, the lumber outlets responding reported a somewhat surprising 1,260 square feet devoted to decorative products in 1983. Although lumber dealers expect an identical increase in real gross sales to that of this year, they expect costs of goods sold to rise by 4.7 percent.

Lumber/building supply stores do not expect to increase their paint inventories very drastically in 1984. Their average response of only a 1.94 percent increase in inventory was the lowest of all major outlet categories. Most Lumber dealers carry one national brand paint line and invested an average dollar inventory of $9,617.64 in 1983. Lumber dealers were able to attain an average of 34.42 percent on gross margins last year.

Though lumber stores are seldom involved in window treatments or draperies, their average inventory and gross margins tend to hover right around the center of the pack of other outlets for all other decorative products merchandise. In paint sundries, chemical specialties, floor coverings, and arts and crafts, the lumber/building supply stores get fair gross margins and invest in inventories that are neither low nor high.

Breaking decorative products sales down by department at the lumber stores, one finds that paint and coatings comprised 55.84 percent of sales, followed by sundries (16.27) and chemical specialties (16.51). Wallcoverings and window treatments, floor coverings, and arts and craft materials are not entered into very heavily with this group.

The majority of decorative products customers remains do-it-yourselfers, who comprised 56.31 percent of sales. Just over 18 percent of lumber store business was conducted with painting contractors. Other contractors made up 12.48 percent, institutional, industrial and commercial accounts—7.77 percent and other dealers, 5.38 percent.

When questioned as to the condition of sales in 1983, half of the respondents felt the year was just an "average" one. However, in almost direct correlation with hardware retailers and the condition of decorative products sales as an industry, just over 33 percent said sales were above average in 1983 at the lumber/building supply store.

The vast majority of wallcoverings sold at these outlets are sold through sample books (87.5 percent). Not one respondent reported selling from stock. Self-display merchandising of wallcoverings accounted for 12.50 percent of sales. Lumber stores reported that only an average of nearly 57 books are carried, returning an average gross margin of 29.28.

Of all categories of store types surveyed, lumber stores drew the largest number of respondents who were planning to expand their operations. Over 11 percent of those stores responding said they were expanding in 1984. Interesting enough, none of them reported that they were going to change their locations this year.

Those outlets responding to the survey averaged five employees at their stores, while only a mere 2.78 percent of the retailers employing a decorator.

A slow gradual trend appears to be developing in the lumber/building supply trade that bodes well for all aspects of the industry. Decorative products sales are picking up, and dealers are so pleased with their businesses as a whole that they are beginning to expand. It appears that exciting times are slowly beginning to unfold.

Home centers, perhaps the largest growth retail outlets of the '70s, are continuing that pace. Not totally unaffected by recessionary times of the past few years, however, home centers are again back on the fast track to profitability. Gross sales of decorative products at home centers accounted for an average of a large $449,764. Home center dealers told *DPW* that gross sales of their decorative products averaged a 10.21 percent increase over 1982. Other than independent and paint-manufacturer owned stores, home centers generally had the largest square foot areas devoted to the sale of decorative products, averaging 1,491 square feet. They reported that their expectations for total gross sales of decorative products in 1984 would increase by a large 12.12 percent, while costs of goods sold were expected to rise only by 4.66 percent. Home centers tended to employ more individuals than the other types of outlets, averaging nine individual workers, with 35.53 percent of the respondents reporting the employment of an on-staff decorator.

Though paint inventories and sales of paint at home centers remains steady, the margins received and amount carried is only average compared to the other outlets. Home centers, instead, concentrate their efforts in other areas, more so than the other types of outlets. The amount of average dollar inventory in several facets of the decorative products industry was the highest by home centers as compared to the other types of dealers. Home centers averaged a dollar inventory of $5,973 in paints and sundries; $127 in draperies; and $10,620 in floor coverings. All were the highest dollar inventories of stores selling in those particular categories. Arts and crafts, however, was an area that home centers appear to be uninterested in. Their average dollar inventory of $81 was the lowest of all categories of stores. Even lumber stores tended to invest more heavily in the sales of arts and crafts.

It appears to be with good reason that home centers are more interested in the drapery and floor coverings facets of the industry. Average gross margins achieved on both were highest in the home center industry.

Draperies had an average gross margin of 19.68 percent for home centers, while home centers selling floor coverings were able to attain a gross margin of 28.51 percent. The 25.31 percent average gross margin of window treatments was also the highest in the home center category.

Big plans are in the offing during 1984 for home center retailers. A total of 20.85 percent responding to the survey said they had plans to remodel this year, while a large number of home centers were planning a switch of location (8.34 percent).

Paint sales at home centers do not appear to have changed much. Most tend to stick with one national line

table 2

1983 sales by department

	lumber	other	hardware	home center	independent	paint mfg. owned
paint & coatings	55.84%	26.45	53.86	26.45	41.36	62.48
sundries	16.27	6.26	22.19	8.25	12.08	13.45
chemical specialties	16.51	4.26	15.56	5.9	3.48	5.98
Wallcvg/ window treats.	2.45	21.39	4.0	27.59	26.88	13.26
floor covr.	6.39	27.69	.66	26.55	4.88	3.14
arts & crafts	.36	1.8	1.21	1.5	1.31	.45
other	2.12	8.3	1 43	2.7	2.85	.58

table 3

1983 sales by customer

	lumber	other	hardware	home center	independent	paint-mfg. owned
diy	56.31%	29.28	73.94	58.3	49.42	30.17
paint. contr.	18.06	8.70	7.50	11.16	20.22	42.43
other contrs.	12.48	12.39	4.99	7.94	4.13	6.56
*I-I-C	7.77	12.47	11.39	4.9	8.24	17.17
other	5.38	9.72	2.22	4.69	1.28	2.11

*I-I-C is institutional, industrial and commercial markets

table 4

	lumber	other	hardware	home center	independent	paint-mfg. owned
booming	0%	3	1	2	6	1
above average	12	17	25	11	52	15
average	18	17	40	6	77	11
below average	5	15	6	3	30	5
poor	1	5	0	2	6	0

of paint. The average dollar inventory of home centers selling paint was $9,466.66. A relatively low 29.6 percent gross margin was attained by home centers in the paint field last year. However, home centers said they plan to increase their paint inventory levels by 5.39 percent on average during this year.

Home center retailers do carry a large percentage of paint and coatings in relating to the rest of the products they sell, but due to the margins they receive in wallcoverings, window treatments and floor coverings, those items are emphasized more heavily in their product mix. Wallcoverings and window treatments accounted for 27.59 percent of sales at home centers, followed by floor coverings (26.55 percent) and paint and coatings (26.45 percent. Sundries constituted 8.25 percent of sales by department, chemical specialties—5.90 percent. Arts and crafts only comprised 1.50 percent of total sales at these outlets.

Like hardware stores, home centers gear their business towards the homeowner, who comprised 58.83 percent of sales in 1983. Painting and decorating contractors made up

table 6

wallcoverings

	lumber	other	hardware	home center	independent	paint mfg owned
sample books	87.5%	85.80	81.90	90.0	94.0	96.25
stock	0	14.30	13.65	14.28	79.0	53.90
self display	12.50	8.57	9.10	7.76	26.0	26.9
average $ invest.—sample	$408.	813.	604.	873.	1,759.	525.
average $ invest.—stock	0	6133.	no answer	1487.	19,668.	7,507.

table 7

wallcoverings

	lumber	other	hardware	home center	independ.	paint mfg. owned
# of books	57	192.4	121.4	112.9	325.9	166.6
gross margin stock	0	8	8.18	5.6	25.82	17.4
gross margin sample	29.28	41.0	38.5	45.0	35.26	27.68

11.16 percent of the customers at home centers, followed by other contractors (7.94 percent) and institutional, industrial and commercial accounts (4.9 percent).

Home centers, like the other types of outlets more carefully scrutinized in this survey analysis, said the vast majority of wallcoverings were sold from sample books (90.44 percent). Stock (14.28 percent) and self-display merchandisers (4.76 percent) did not even come close. An average of nearly 113 books were carried by home centers, with an average investment of $873.88. Over 45 percent was attained as gross margins of the wallcoverings sold at home centers through these books.

Home centers, as they have in the past, told *DPW* that their perception of their greatest competitors were home center operations like themselves. Over 16 percent said that home centers were their greatest competitors, while no one perceiving independent or paint manufacturer-owned retail operations as their greatest threat.

By continuing to concentrate on a more diversified product mix, home centers appear to be making even greater strides than in the past in gaining a larger market share in the decorative products world.

The percentages of decorative products sales according to store departments are shown in **Table 2** for each of the major store categories.

Overall, paint sales for all six store categories turned out average in comparison to 1982's paint sales and according to what might be expected from each of those categories. This is especially evident for the paint-manufacturer owned stores, whose paint sales in 1983 accounted for 62.48 percent, as compared to 59.4 percent the previous year. If one glances down the column for paint-manufacturer owned stores, one finds, as probably expected, that paint sales account for more than half of all decorative products sales.

And if one glances down the column for home centers, one finds that sales in paint nearly equaled those in the wallcoverings/window treatments and floorcoverings categories. Given the general emphasis today within the industry on "total decorating," this also is not too surprising. Customers seem to take well to this idea of coordinating decorative products purchases and buying them all in one shot at one store. Last

year's survey showed that sales in window treatments for home centers were not even high enough to arrive at a percent. And wallcoverings accounted for only 13.9 percent of total sales.

Also notable is a general slackening off of arts and crafts sales in all categories. Although the shift is slight—from 4.2 percent for independents to 1983's 1.3 percent—it is obvious that customers are either losing interest in crafting their own art or that they are buying their supplies elsewhere.

As for chemical specialties, sales were down this year for independents, home centers and hardware stores, but up for lumber and building and paint-manufacturer owned stores.

By now, you may be wondering what type stores constitute the "other" category. Many of them were specialty stores, such as floorcoverings, independent decorating, wallcoverings, window treatments, home furnishings and interior design stores. Hence, the nearly equal percentages in the "other" category of sales in paint, wallcoverings/window treatments and floorcoverings, much like the home center category's column.

In **Table 3** one will find the percentages of decorative products sales according to customer for each of the major store categories.

Overall, the do-it-yourselfer continues to dominate the sales of all store categories. Although this year's survey shows a few shifts in percentages—from 47 percent of DIY for home centers in 1982 to 49.4 percent in 1983—most of the changes are negligible.

On the other hand, the painting contractor seems to be slowly moving in on the DIY as far as sales go. In the paint-manufacturer owned category, for example, painting contractors accounted for 42.43 percent in sales, as opposed to last year's 19.2 percent. Home center sales to contractors grew from 6.5 percent to 11.16 percent. Independents went from 16.9 percent to 20.22 percent in selling products to painting contractors.

With the exception of the dramatic shift in contractor-DIY sales for the paint-manufacturer stores, most of the categories continued to rely on the homeowner or DIY for their sales. But that paint category is a big exception. In 1983, contractors accounted for 42.4 percent of sales, as compared to 30.17 in DIY sales. In the past few years, paint-manufacturer specialty chains were showing a shift toward placing more emphasis on the DIY sales, but this trend has apparently changed back to a concentration on the contractor as a customer.

Despite the fact that everyone within the industry these days is talking about things "looking up" and thinking that there's a general mood of optimism prevailing within everyone's mind for the coming years, the results indicated in **Table 4** are not earth shattering by any means. In other words, very few dealers are operating booming businesses—yet. And we say yet because there does seem to be some improvement in 1983 total sales over the previous year's. And that improvement, according to economists, will continue to gradually climb in 1984.

Two store categories—home centers and paint-manufacturer owned—show that sales are above average. Eleven percent who answered the question in the home center category said business is above and 6 percent said business is average—that adds up to 17 percent saying business may not be booming, but at least it is not below average (3 percent) or poor (2 percent). The paint-manufacturer owned stores showed similar ratios with 11 percent saying business is average and 15 percent saying it is above average. Note that in this store category, not one said business is poor. Hardware stores, with a strong 40 percent in average sales, also indicated that no sales are bad enough to label it "poor."

In all six categories, the overall feeling is that business for the stores are all above average or average, with only a few at below average. So, the industry seems to still be wavering in that middle range with not many stores doing fantastic but not many stores doing terrible either.

With the exception of the paint-manufacturer owned stores, all the categories of stores in **Table 5** indicated that home centers and mass merchandisers pose one of the greatest threats as far as competition goes. Indeed, for the hardware, independent and "other" categories, the mass merchandisers were the greatest overall competitor. For the lumber and home center categories, the home center was chosen as the largest competitor.

It is interesting—but, not surprising, perhaps—that in every category, such as home centers, the most threatening competitor was a store within that same category. Hardware stores compete with hardware stores. Independents compete with independents. And if one glances across at the corresponding categories of the top column and the left-hand column, one finds that the percents of like-store competition is no small bite in the free enterprise pie. Two categories—the home center and the paint—indicated that stores of their own kind were the greatest competitor. Home center indicated 16 percent, and paint-manufacturer owned indicated a whopping 43 percent as like-store competition. If this survey is an accurate indication, no one in the industry threatens a paint-manufacturer owned store except stores owned by other paint companies. Hardware, lumber and home center have no affect on paint-owned stores, according to the figures.

Tables 6 and 7 show how wallcoverings fared in 1983 for the six store categories. According to the results, all six categories are more inclined to carry wallcoverings through sample books than through stock. Lumber and building was the only category that does not stock wallcoverings at all. Hardware came in second with only 13.65 percent of its wallcoverings in stock. While all store categories favor the sample books, more dollars were spent in investing in-stock. Despite the high cost of sample books, stocking one's own wallcoverings is far more expensive, according to the figures. This is especially indicative within the paint-manufacturer owned category, with $7,507 invested in stock and only $525 invested in sample books.

In **Table 7,** we find the average number of books carried and the gross margins in both stock and sample books. Many of those stores that did not give exact figures on the amount of books carried in their

table 12

	percent of stores carrying					
	lumber	other	hardware	home center	independent	paint mfg. owned
artists brushes	0.36	0.14	0.67	0.37	0.43	0.18
adhesives	0.86	0.39	0.96	0.79	0.61	0.45
silicone caulk	0.98	0.32	0.99	0.71	0.78	0.72
mildew remover	0.44	0.18	0.84	0.84	0.75	0.66
wallcov. remover	0.25	0.16	0.67	0.63	0.90	0.69
antiquing finishes	0.30	0.07	0.66	0.58	0.64	0.24
bath seats	0.56	0.14	0.88	0.63	0.07	0.00
ceiling tile	0.78	0.05	0.08	0.58	0.03	0.00
floor covrng.	0.25	0.39	0.09	0.84	0.20	0.36
shutters-window	0.67	0.19	0.04	0.58	0.12	0.00
venet. blinds	0.05	0.34	0.04	0.36	0.28	0.15
ladders	0.89	0.21	0.95	0.63	0.58	0.87
respirators	0.47	0.02	0.70	0.54	0.47	0.87
paint rollers	0.86	0.36	0.98	0.75	0.91	0.96
airless sprayers	0.22	0.14	0.39	0.29	0.30	0.75
grasscloths	0.05	0.14	0.07	0.46	0.66	0.72

table 5

	competition					
	lumber	other	hardware	home center	independent	paint mfg. owned
independ.	8.58%	2.38	0	0	11.7	9.99
paint mfg.	17.16	7.14	0	0	9.1	43.29
hardware	2.86	2.38	4.92	8.34	3.25	0
lumber	2.86	4.76	4.92	0	3.9	0
home center	14.3	7.14	8.2	16.68	4.55	0
mass merchandiser	11.44	14.28	9.84	8.34	14.95	6.66

table 9

	plans for 1984					
	lumber	other	hardware	home center	independ.	paint mfg. owned
open new store	8.8%	8.45	1.45	8.34	6.00	20.70
remodel	14.3	15.21	18.85	20.85	19.80	20.70
expand	11.4	10.14	10.15	8.34	7.20	6.90
move	0	1.69	4.35	8.34	4.80	3.45
none	68.6	59.15	69.6	54.21	65.80	55.20

store simply answered "too many" with an exclamation point on the end. This type of answer also showed up in answering the question on average investment in sample books—"too much," many of them said. Since all store categories said they do most of their sales through sample books, it is slightly puzzling that they would say they both invest too much in them and carry too many of them. Gross margin in sample books was higher in all categories than gross margin in stocked wallcoverings.

It is notable that all these figures have taken a 90 degree shift from the previous year's survey. In 1982, most retailers in all categories tended to show higher margins on in-stock wallcoverings than on merchandise that had to be ordered. Only home centers, which are known for heavily discounting in-stock wallcoverings, had a higher margin on orders than on in-stock in last year's survey. This year, every category had higher margins on samples books. As for the number of books carried, once again, independents led other store categories in the number of books carried (325). ■